

# SENATE BILL REPORT

## SB 5068

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As Reported By Senate Committee On:  
Labor, Commerce & Financial Institutions, January 18, 2001

**Title:** An act relating to credit unions.

**Brief Description:** Regulating credit unions.

**Sponsors:** Senators Prentice and Winsley; by request of Department of Financial Institutions.

**Brief History:**

**Committee Activity:** Labor, Commerce & Financial Institutions: 1/11/2001, 1/18/01 [DPS].

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### SENATE COMMITTEE ON LABOR, COMMERCE & FINANCIAL INSTITUTIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass.

Signed by Senators Prentice, Chair; Gardner, Vice Chair; Fairley, Hochstatter, Honeyford, Patterson, West and Winsley.

**Staff:** Dave Cheal (786-7576)

**Background:** A credit union is a not-for-profit cooperative financial institution created to serve members of a defined group, or residents of a defined neighborhood, community, or rural district.

Credit unions doing business in Washington can be chartered by the state or federal government. The National Credit Union Administration regulates federally-chartered credit unions, and the Department of Financial Institutions regulates state-chartered institutions.

The Washington Credit Union Act provides for the organization and powers of state credit unions. The act also gives the Department of Financial Institutions examination and supervision authority over state-chartered credit unions.

The need for many clarifications and technical corrections have come to light since the last significant revision of the act in 1997. Certain powers that parallel those held by other financial institutions are thought to be appropriate for credit unions. Certain shifts in regulatory activity are believed by the industry and the regulators to be desirable, and require changes in the act.

**Summary of Substitute Bill:** Numerous changes are made to the Washington Credit Union Act.

Several definitions are clarified, or eliminated because they are no longer needed, or changed to reflect parity with federally chartered credit unions. Senior operating officer— is a needed new definition because their fiduciary duties are recognized in a later section.

Duties of board officers no longer need to be defined in the bylaws of a credit union. No regulatory purpose is served by the existing requirement.

The director is given greater discretion with respect to start-up credit unions.

Approval of bylaw amendments by the director is only required for changes that affect field of membership.

Changes and clarifications are made regarding board membership and termination of directors. Certain board powers, such as establishing loan approval policies, are clarified. Clarification of supervisory committee membership, termination and continuation is provided.

Credit unions are authorized to provide insurance coverage to directors and committee members if the coverage is available to employees of the credit union generally.

Changes are made to the insurance and bonding requirements for credit unions and individual directors, and notice to the director in the event of bond termination or suspension.

General powers of a credit union are expanded to include acting as insurance agent or broker for its members.

State chartered credit unions currently have general parity of powers with federally chartered credit unions. The parity provision is amended to include out-of-state credit unions operating a branch in Washington. However, Washington credit unions must still have federal share insurance or the equivalent as required under current law.

The establishment of a new type of credit union known as a low income credit union is allowed. At least 50 percent of the members, or potential members have incomes of no more than 80 percent of the state or national median income, whichever is higher. The director may establish other requirements.

Certain distinctions between business and consumer loans are eliminated.

The statute that sets reserve requirements for credit unions that are not federally insured is removed since no such credit unions are currently permitted to operate in Washington.

Several merger procedures are clarified and amended to reflect department interpretation.

The director is given access to credit unions' records and the authority to revalue a credit union's investments, consistent with thrift and bank statutes. The director is given authority to examine out-of-state and foreign credit unions permitted to operate a branch in Washington. Various other records access and examination powers are added.

Several sections are repealed because their substance has been moved to other sections or operative dates are past.

Several grammatical and technical corrections are made.

**Substitute Bill Compared to Original Bill:** Amendments to a credit union's articles of incorporation are made effective upon filing by the Secretary of State. The original bill redefined "spouses" (of directors) to include domestic partners. That change is removed in the substitute bill. Credit unions may only sell insurance products to their members that can be sold by other state-chartered financial institutions. Although credit unions chartered in this state have the same powers generally that out of state credit unions have that are operating a branch in this state, all credit unions operating here are governed by Washington field of membership rules. A credit union may invest up to 1 percent of its assets in credit union service organizations, rather than 1 and one half percent as allowed in the original bill.

**Appropriation:** None.

**Fiscal Note:** Requested on January 10, 2001.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** The bill makes a number of technical corrections and clarifications with regard to parity of powers with federally chartered and out of state credit unions. Credit union governance powers are clarified. Powers of credit unions are amended to recognize financial services modernization at the national level.

**Testimony Against:** None.

**Testified:** Parker Cann, DFI (pro); Gary Gardner, Boeing Employees Credit Union (pro); Stacy Augustine, WA Credit Union League (pro).